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A Discussion Paper on the Personal Adjustment Plan

Working Group on Financing Mining Community Adjustment

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Financing Mining Community Adjustment:

A Discussion Paper on the Personal Adjustment Plan

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FOREWORD

This document was prepared in response to a request by Federal, Provincial, and Territorial Mines Ministers at their September 1985 Conference. It continues work begun in a 1985 report entitled New Financial Mechanisms for Addressing Mining Community Problems, and is one of two papers prepared for the 1986 Mines Ministers Conference on the subject of financing mining community adjustment. This paper discusses the Personal Adjustment Plan, a mechanism to assist individuals, while the other paper, on the Community Development Fund, focusses on community-level adjustment.

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EXECUTIVE SUMMARY

Process

1. The September 1985 report to Mines Ministers, New Financial Mechanisms for Addressing Mining Community Problems, outlined five ideas for responding to the difficulties facing mining communities. As directed by Mines Ministers, this paper looks in detail at one of those five, the Personal Adjustment Plan.

2. A working group representing various mining community interests prepared this paper. Organizations represented on the group included the United Steelworkers of America (USWA), the Mining Association of Canada (MAC), the Canadian Association of Threatened Single Industry Towns (CATSIT), the federal departments of Energy, Mines and Resources, and Employment and Immigration, and several provincial and territorial mines departments. Annex I contains a list of participants.

Overview

3. The Personal Adjustment Plan (P.A.P.) concept represents a departure from the traditional approach to adjustment assistance for laid-off individuals. It is intended as an incentive program for savings, rather than an expenditure program managed and fully financed by government. Individuals would be encouraged to save while employed for those times when they may be unemployed as a result of layoffs. A role for the employer is also contemplated. The P.A.P. approach stresses risk-sharing and individual financial planning, and is at the same time consistent with the very real budgetary constraints facing governments.

4. The government role in the P.A.P. concept would ideally be to provide certain tax incentives. All contributions to P.A.P.'s could be tax deductible at the federal and provincial levels. While the issue of tax treatment is complex, and would represent a new departure in tax policy terms, the analysis in this paper assumes that contributions would receive favourable tax treatment.

5. The P.A.P. is designed for small, local labour markets where adjustment problems are acute. Mining communities serve as the case in point, but the idea could be extended to other single industry towns. The program would complement the Unemployment Insurance scheme available nationwide.

6. Previous community-based adjustment initiatives have tended to favour employees of the major industry in the community. This proposal differs in that all employed residents in single-industry communities could establish a P.A.P. Adapting the program to self-employed individuals appears difficult.

Program Design Options

7. The working group has developed two options for the operation of Personal Adjustment Plans. The essential difference between the options is the role of the employer.

8. Under Option 1, both employees and employers would contribute to the Personal Adjustment Plans of participating employees. Each party would contribute a fixed amount annually to a savings fund. Details on the Plans would be flexible and subject to agreement between employer and employees, perhaps in the collective bargaining process. All contributions would be tax deductible at the federal and provincial levels, and for tax purposes, a limit would be placed on the maximum annual contributions. After a period of years, each participant would have accumulated a fund in his/her name on which he/she could draw, under specified conditions, if laid-off. In design terms, Option 1 is similar to a money purchase pension plan.

9. Option 2 differs from Option 1 in that the pool of savings would be generated by employee contributions only, without involvement by employers. Again, it is assumed that contributions would be tax-deductible, and maximum annual contribution limits would be set. This Option would be very similar in practice to RRSP's except that the purpose of the savings would be adjustment rather than retirement.

10. Contribution limits under Option 2 could be set higher than under Option 1 in view of the absence of employer contributions. Additionally, while P.A.P. savings not used for adjustment purposes would be subject to tax upon withdrawal, contributions could be rolled-over into RRSP's, particularly in the Option 2 scenario. Another feature of Option 2 is that P.A.P.'s could readily be made portable so that participants could benefit from the Plan regardless of which eligible single-industry town they reside in.

11. Certain program features would apply regardless of the option chosen. Among the considerable number of administrative issues the P.A.P. concept raises, two key ones are:

a) P.A.P. funds would be used only in the event of severe community dislocation resulting from indefinite or permanent layoffs announced by the major employer. Only individuals directly or indirectly affected in such a situation could qualify for tax-free withdrawals from P.A.P. savings.

b) To ensure program effectiveness, a small agency or board would probably be required to certify layoffs as eligible and to ensure individuals are unemployed when they make tax-free withdrawals. Two existing agencies that could possibly perform this function are the Canada Employment and Immigration Commission and the Labour Adjustment Review Board. The burden on either of these agencies would not likely be large since the number of potentially eligible major layoffs in single-industry communities each year is generally manageable.

Costs

12. The analysis in this paper suggests that total P.A.P. contributions for tax purposes could range from $2,500-$10,000. For purposes of analysis, a contribution limit of $5,000 is assumed. Under Option 1, each of the employer and employee could contribute up to $400 annually for a

period of five years. Under Option 2, the annual employee contribution would be $800. A fund of this size could be of significant benefit to laid-off plan participants while keeping costs reasonable.

13. Program costs depend critically on the tax structure and number of mining communities in each jurisdiction that participates. Federal costs of both Options would be about $1,000 per participant in tax revenue foregone, or $11.0 million annually over 5 years, based on the program population described here (i.e., mining communities eligible for the federal northern benefits remission program). In Option 1, most provinces could participate for less than $1.0 million annually, though Option 2 would be less costly because corporate taxes would not be foregone. Also under Option 1, estimates suggest that participation by companies may have a minimal impact on their rates of return, though marginal mines may not be able to bear any additional costs. The cost of the program to employees would be twice as high under Option 2 versus Option 1, but in either case, the financial benefits outweigh the costs.

14. The proposal has the potential to be cost effective. Two key reasons for this are: (a) the P.A.P. proposal could reduce the demand on existing government adjustment programs; and (b) the cost estimates derived in the paper are high because many Personal Adjustment Plan savings would not be needed or used in adjustment situations and would therefore be taxable upon withdrawal.

Conclusions

15. Hard questions have been asked about the effectiveness of recent approaches to labour adjustment in single-industry communities. It is a widely held view that improvements are necessary and possible. Under this proposal, responsibility for financial planning and the managing of adjustment would be shared with those affected, and governments would assist financially through the tax system.

16. Important difficulties with the P.A.P. proposal have been identified and remain unresolved: (1) the labour movement would not likely support the P.A.P. funding mechanism because of the requirement that workers contribute; (2) the Department of Finance may not be able to support additional tax expenditures in the current budgetary environment; and (3) some working group members feel that program administration would be too complex. Also, it is unclear if or how the P.A.P. concept would fit into the proposed reform of the tax system.

17. The Personal Adjustment Plan would represent a new and controversial approach to adjustment assistance that is without precedent in Canada. It could be a potentially useful mechanism to encourage financial planning in single industry communities and to share the costs of adjustment assistance. However, reservations have been expressed by working group members and a number of technical questions remain unanswered. Therefore, it would appear premature to advance the proposal further without more extensive analysis.

Financing Mining Community Adjustment: The Personal Adjustment Plan

I. INTRODUCTION

The uncertain future of many of Canada's mining communities is a matter of concern for industry, labour, federal and provincial governments, and most importantly for mining town residents. The issue was first given formal attention in the 1982 Report of the Task Force on Mining Communities. Subsequently, in May 1985, Mines Ministers again focussed on the difficulties which mining communities face in the event of major lay-offs and closures. Ministers were particularly concerned about trying to find ways to finance community-based adjustment assistance. As a result, a joint Energy, Mines and Resources/Manitoba Energy and Mines study, New Financial Mechanisms for Addressing Mining Community Problems, was tabled at the September 1985 Mines Ministers Conference in Charlottetown.

The September 1985 study outlined five ideas for financing adjustment programs in single-industry, resource-based communities, notably those dependent on mining. After review of the study by Mines Ministers, it was agreed that the Personal Adjustment Plan offered interesting possibilities and warranted further study. A working group was subsequently created with representation from the United Steelworkers of America, the Mining Association of Canada, the Canadian Association of Threatened Single Industry Towns, several provincial and territorial mines departments, and the federal departments of Employment and Immigration, and Energy, Mines and Resources. It was asked to look in detail at the idea and report back to Mines Ministers.

This paper examines the Personal Adjustment Plan. Options for implementation and possible program design criteria are developed and policy and cost considerations are explored. This report responds to recommendation 12 of the 1982 Report of the Task Force on Mining Communities, which proposed further evaluation of individual and community adjustment schemes.

A reality of the 1980's is that funds available to both federal and provincial governments to finance new programs are extremely limited. This applies equally to programs for mining community adjustment. Consequently, a central factor in the designing of the Personal Adjustment Plan (P.A.P. has been that costs must be shared where possible, and the draw on public money must be limited. A strength of the present proposal is that the financial burden on traditional sources of adjustment funding is contained.

In view of the tax policy implications, this proposal falls within the purview of the federal Minister of Finance along with Provincial Treasurers. As such, the P.A.P. idea would ultimately have to be evaluated in the broader context of the proposed reform of the tax system.

Program Objectives

When a layoff or mine closure is announced in a single-industry mining community, the shock is considerable. Often individuals in these situations are ill-prepared to make the required adjustments, such as to find new work or to relocate. Also, the local labour market does not offer the opportunities for re-employment found in larger centres, and where relocation is necessary, the associated costs can be significant. The adjustments required in situations such as these can never be made easy, but the Personal Adjustment Plan proposal could ease the difficulties by ensuring that a pool of funds is available to individuals affected.

A basic tenet of the 1982 Report of the Task Force on Mining Communities was the concept of shared risk; i.e., all parties involved in the mining industry, and mining communities, must bear their respective shares in the responsibility for their future. The principle behind the Personal Adjustment Plan is very similar. The responsibility to assist individuals affected by mass layoffs or closures must be shared by all concerned, including governments at all levels, the employer, and the workers themselves. There was perhaps a presumption in the past that adjustment assistance is largely a governmental responsibility. However, a more realistic approach is that the risks associated with employment in a non-renewable resource industry in a single-industry community should be shared.

A widely-recognized weakness in previous community-based adjustment assistance initiatives (e.g., ILAP, Canadian Industrial Renewal Program, Labour Adjustment Benefits) is that benefits were often only available to employees of the major industry in the community. Often this meant that the unionized workers had greater access to benefits. However, other businesses in the town are certainly affected by mine closures or layoffs, and the workers involved are likely to face layoffs and an equally difficult adjustment period. With the possible exception of self-employed individuals, a Personal Adjustment Plan could be made available to everyone employed in the community.

Even in remote communities, the adjustment issues are of a different order in the case of mass layoffs as compared to smaller layoffs (affecting a few workers) which are a normal consequence of economic and production cycles. In many cases, the Unemployment Insurance program is a sufficient first line response. The Personal Adjustment Program would be most appropriate in the special cases where dislocation at the community level is severe. This issue is explored more closely below.

II. PROGRAM OPTIONS

The working group has developed two distinct options for the Personal Adjustment Plan. Option 1 contemplates that both the employee and the employer contribute to the employee's P.A.P. Option 2 is an employee-only scheme, much like an R.R.S.P. in concept. This section considers the broad directions of each option, recognizing that a number of technical issues would require attention before either option could be implemented.

A key element of the P.A.P. idea is the favourable tax treatment of contributions. The issue of whether corporate and individual contributions to Personal Adjustment Plans should be tax deductible is both complex and controversial. While the program could operate without the tax assistance, a case can be made that government participation in adjustment initiatives such as this is appropriate. Also, this measure could be justifiable if it proved more cost-effective than existing adjustment programs and were to replace them. Nevertheless, any additional draws on public funds in the present budgetary environment must be considered very carefully. The approach taken in this paper is to assume that contributions to P.A.P.'s would be tax deductible. Recognizing the complexities arising from such an assumption, it will at least permit a clearer understanding of the cost and other issues involved.

Option 1 - Employee/Employer Personal Adjustment Plan

Basic Structure

Option 1 of the Personal Adjustment Plan can be thought of as being similar to a money purchase pension plan. Workers in eligible communities would establish a savings fund in a financial institution. By agreement with their employer, either individually or through the union where one exists, predetermined amounts would be contributed to the savings fund each year for a fixed number of years by the employee and by the employer. Ideally, corporate contributions to the employee's Personal Adjustment Plan would be tax deductible at the federal and provincial levels. Corporate contributions could be modelled on Employee Trust Plans or Employee Benefit Plans which can be established to accumulate employer funds for use by employees in prescribed circumstances. Individual contributions could also be tax deductible for the year of contribution. Accumulated funds could then be withdrawn tax-free[1] if they were to be used for predefined adjustment assistance purposes necessitated by a major layoff or closure. As noted above, the program would apply only in eligible communities, namely remote single-industry communities where the impact of a major layoff or closure is particularly acute.

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1 Tax policy generally dictates that if contributions to a plan of this nature are tax-dectutible, then all withdrawals from the plan should be taxable. The Registered Home Ownership Savings Plan was an exception to this rule. If withdrawals were taxable, employees would still have the advantages of deferral of taxes and the tax-free accumulation of interest income earned on Plan funds. Of equal importance, P.A.P. funds would be taxed at a lower marginal rate when withdrawn during the year of unemployed.

The P.A.P. would probably have to be entirely voluntary. The voluntary nature would allow the flexibility for employers and employees (or their union) to agree on plan terms reflective of their individual needs and circumstances. Also, legislated implementation of the Plan could have adverse consequences for industrial relations in the sense that a mandatory program could impose a condition of employment that the two parties do not desire. On the other hand, the labour movement might prefer mandatory employer contributions since, in their view, it would be less likely in that case that employer costs would be passed on to workers in the form of lower wages and benefits. Employers are inclined to point out that in the case of marginal mines any additional costs imposed at the local level may only hasten closure.

Participation Incentives

What incentives would companies - mining and non-mining - and individuals have to participate in such a Personal Adjustment Plan program? From the employers' perspective, there are a number of potential benefits. Firstly, contributions could be an investment in healthy labour relations. In single industry communities, employment opportunities are limited, and it would be encouraging to workers to know that their employer was contributing to a fund to assist them in the event of layoffs or closure. Secondly, for mining companies who would otherwise offer an adjustment package in the event of mass layoffs, the Personal Adjustment Plan could prove to be a cost-effective alternative. In addition, the corporate contribution would be made over time rather than at once at the time of the layoffs, providing a more certain and orderly approach to employee adjustment. Of course, individual funds would have to accumulate for some time to be a useful alternative. However, if significant funds are built up, the pressure on employers to provide high levels of assistance at the time of layoff would be reduced.

The benefits to individuals are even more obvious. The employer would contribute a known amount which is negotiated rather than imposed. The long term commitment to adjustment assistance would be reassuring. Also, the tax benefits that could accrue from P.A.P. savings could be substantial. Finally and perhaps more importantly, the program encourages individuals to prepare themselves for the real possibility in single-industry towns of a large layoff or, ultimately, closure.

As noted, there is a strong concern in the labour movement that the Personal Adjustment Plan Option 1 would impact adversely on the gains that workers might otherwise receive through the collective bargaining process. The concern is that with these plans in existence, the employer would seek correspondingly smaller pay or benefit improvements. In considering this view, there are several factors. By negotiating the terms of P.A.P.'s within the collective bargaining system, employees through their union have some control over Plan design and can work to ensure that impacts on other aspects of the agreement are minimized. Also, contributions to P.A.P.'s by both employers and employees reflect the reality of shared responsibility for adjustment in the event of layoffs or closure. Finally, if an employer makes a commitment to adjustment assistance, whether through P.A.P.'s or more traditional means (e.g., severance packages, mobility assistance),

then in either case this employer cost might impact on total compensation. Consequently, it seems likely that the nature of employee benefits, rather than the total value, would be affected by introduction of a P.A.P. program.

Some members of the working group question whether these incentives would be sufficiently strong to ensure program success. Also, the labour movement would not likely support this option because of the onus placed on workers to contribute to Personal Adjustment Plans.

Treatment of Contributions

There are a number of circumstances which would arise in which an individual's Personal Adjustment Plan could not be used for its intended purpose. For example, a participant might retire, move away from the community for personal reasons, or simply choose not to carry a Plan any longer. In this event, a possible approach would be a return of contributions. Individuals would receive their own contributions with interest, as would employers.

Under these circumstances, refunded contributions and interest would have to be taxable. For these monies not to be taxed at that point would violate the spirit of the program. However, special conditions where tax would not be payable could be contemplated. While this is a difficult matter, there are some options. For example, corporations could avoid paying taxes on refunded contributions by placing them in a special fund (e.g., an Employee Benefit or Trust Fund) which would be used to make Plan contributions on behalf of other employees (e.g., those newly hired). In other words, tax would be owing if refunded contributions were not used to contribute to Personal Adjustment Plans held by other employees.

A related issue is portability. A program design option could be to allow employees to retain access to funds accumulated in their P.A.P. if they relocate voluntarily to another single industry community. If employer contributions to P.A.P.'s are viewed as part of total compensation for employees, then portability in this context would be justifiable in the same sense as is pension portability. This is a matter that could be the subject of company-specific P.A.P. agreements with employees. In any event, the matter of portability is potentially complex and would require a detailed examination.

Option 2 - Employee Only Personal Adjustment Plans

Basic Structure

Option 2 of the Personal Adjustment Plan would be similar in structure to a Registered Retirement Savings Plan (R.R.S.P.), except that the tax-assisted savings would be for adjustment purposes rather than for retirement. Individuals, independently from their employer, could set up a P.A.P. account to which they would make periodic (i.e., annual) contributions. Each year's contributions would be tax-deductible up to a specified

limit. Like Option 1, tax-free withdrawals[2] from the P.A.P. could be made in predefined adjustment situations arising from a major layoff or closure. Also like Option 1, the program would be entirely voluntary and would apply only in single industry communities where local labour market problems are particularly difficult.

This option may appear similar to simply amending RRSP rules to permit tax-deductible savings for adjustment assistance purposes. Such an approach would be preferred by the Canadian Association of Threatened Single Industry Communities who believe that the P.A.P. idea is too complex administratively. However, amending RRSP rules in this fashion would severely distort its primary policy objective of encouraging savings for retirement. Consequently, a more realistic alternative, to create a separate mechanism with its own objectives and program criteria, is examined here.

Participation Incentives

The incentives which an individual would have to participate in a scheme such as this seem quite straightforward. Most importantly, it would facilitate an orderly, assured means of preparing for the event of layoff or plant closure, something which mining community residents face often. The likelihood of being surprised or ill-prepared financially at the time of layoff are reduced.

The other clear participation incentive is the tax benefits. By virtue of the tax deductibility of P.A.P. contributions, the government in effect shares in the cost of adjustment. As discussed below, full federal and provincial tax deductions can significantly reduce the costs of P.A.P.'s to participants.

A possible disincentive to employee participation under this Option is that the employer would not share in program costs. The labour movement would most likely hold this view and may prefer a program with mandatory employer contributions.

Treatment of Contributions

As in Option 1, there are a number of circumstances under which an individuals' P.A.P. would not be used for its intended purpose. In this event, funds withdrawn from a P.A.P. account would become taxable at the relevant marginal tax rate. Of course, as with R.R.S.P.'s, participants would benefit if their marginal tax rate at the time of withdrawal was lower that at the time of contribution.

The possible link between P.A.P.'s and R.R.S.P.'s could be important. A design option is to permit the rollover of P.A.P. contributions, under Option 2, into R.R.S.P.'s. For individuals who do not face the need to use

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2 see **footnote** 1.

their P.A.P. (i.e., they are not laid off), the rollover feature would encourage participants to use their plan savings effectively by placing them in an R.R.S.P. for use at retirement. A "side effect" of this feature is that it would likely make the P.A.P. concept more appealing because of the added flexibility. Finally, and of some importance, the existence of P.A.P.'s may not increase the cost to governments of tax-assisted savings plans, since individuals generally have a maximum and fixed amount of their income available for savings. That is, the savings vehicle may change if P.A.P.'s were available, but the total amount saved each year would not.

It has been suggested that this roll-over feature could effectively increase the levels of tax-assisted retirements savings for participants, which would be counter to the current tax reform objective of bringing all tax-preferred retirement savings vehicles under one set of limits for purposes of determining the maximum deductible amounts.

III. ANALYSIS

Principles of Operation

Personal Adjustment Plan funds, regardless of which option is chosen, would be intended for use only in the event of severe community dislocation due to layoffs. Since not all layoffs could be said to cause "severe dislocation" at the community level, criteria would be required. This is a complex matter and unfortunately, some arbitrariness in setting the criteria for "severe" dislocation is probably inevitable. However, there are precedents in this regard. Workers seeking benefits under the Labour Adjustment Benefits Act (which provides long-term income maintenance to laid off older workers) must be part of a layoff affecting 10% of the workforce at the operation, or 50 people, whichever is less. Given that LAB benefits and Personal Adjustment Plans have similar adjustment assistance objectives, there is some basis for employing the layoff criteria in the LAB Act.

In terms of the types of layoffs by the primary employer, non-taxable withdrawals from a Personal Adjustment Plan would be permitted in the event of long-term layoffs. The clearest example of "eligible layoffs" would be those due to mine closure. In this event, the opportunity for recall is zero. Large scale, permanent layoffs, due to reduced production, technological change, or other structural causes would also qualify. In each of these examples, the adjustment problems are magnified because the jobs are permanently lost.

While permanent layoffs due to mine closures or structural changes would most obviously qualify, very often layoffs are labelled as "indefinite". In these cases, there exists the possibility of returning to work, but this is far from certain, and in any event the period of the layoff can extend over months. For "indefinite" layoffs, criteria would be needed to determine the circumstances for eligible Personal Adjustment Plan withdrawals.

The reason that criteria would be needed to determine "eligible" indefinite layoffs is in order to identify cases where recalls are likely. That is, where reemployment is likely, P.A.P. withdrawals would not be appropriate. The difficult exercise of formulating these criteria would involve an examination of economic conditions in the sector, employer intentions, and the severity of the adjustment problem. Since these factors would vary in each community, a relatively simple mechanism would be to introduce a waiting period. In the event of indefinite layoffs, tax-free withdrawal of funds could not occur until the waiting period had expired. Alternatively, a small agency or board could review eligibility on a community by community basis. This latter option is explored in greater detail below.

The length of a waiting period would have to be related to unemployment insurance eligibility. Specifically, if Personal Adjustment Plan benefits were deductible from UI benefits, the advantages of the Plan could be all but erased. Therefore, two options would be to: (1) require that UI eligibility be exhausted as a precondition for tax-free withdrawals: or

(2) permit the concurrent receipt of UI benefits and qualified Personal Adjustment Plan withdrawals. The latter option increases the flexibility of the plan (i.e., it can be accessed sooner), though at a greater cost to the U.I. account than if P.A.P. benefits were treated as income for U.I. purposes. The former would probably be an effective way to ensure that Plan benefits are used where most needed, since benefits could not be accessed until up to a year after layoff.

To maximize both the flexibility and simplicity of the Personal Adjustment Plan, the uses of funds withdrawn from the Plan should be left to individual discretion. In this event, the fund would perhaps be most often used as a source of replacement income until new employment is found. However, alternate uses more directly related to the adjustment process would include expenditures on retraining, relocation or job search. The Plan might therefore be made more useful for laid-off workers if unemployment insurance benefits were not reduced by withdrawals for these purposes.

Self-Employment

It would be desirable if everyone in a community, including the self-employed, could be eligible to establish a Personal Adjustment Plan. However, there are real difficulties in establishing that a self-employed person is "laid-off" in the sense in which that term would apply to all other Plan participants. Without the layoff concept in place, it would appear difficult to establish the circumstances under which a self-employed person could withdraw benefits tax-free. Additionally, it is argued that self-employed individuals accept entrepreneurial risk and are compensated accordingly. As a result, it appears doubtful in practical terms that self-employed individuals could participate in this program. This aspect is cited by the CATSIT organization as a weakness in the P.A.P. proposal.

Mining vs. Non-Mining

A key feature of both Options 1 and 2 is that the program is not restricted to employees of the main employer in each town. The principles described above would apply equally to mine workers and others employed in a mining town. However, some differences of note would arise.

For non-mine workers in the community, the reason for their layoff would have to be directly linked to large-scale layoffs at the mine. The agency referred to above could make a determination in these cases. Again, the purpose of the plan is to respond to cases where the primary employer in the single-industry town either closes or lays off enough workers to impact on the local economy.

In terms of the size of contribution to a Plan, this could easily vary widely in a community. For example, small businesses and their employees may have a lesser capacity to contribute to a Plan than would the mining company and its employees (who tend to be among the better paid in single-industry towns). While this offers a degree of program flexibility, small businesses may be unwilling or unable to participate. Also, at least under

Option 1, there is an equity consideration since employees of small businesses may not have acess to P.A.P.'s that are as well-funded as those of the major employers.

Under Option 1, plan organization would also vary due to the fact that the primary employer would likely be unionized while for many of the smaller employers this would be less likely. For union shops, the collective bargaining process is a logical means to agree on plan details. In non-union organizations, some other mechanism would be required. The mechanism need not be elaborate however, and would simply have to facilitate periodic employer/employee discussions on the plan and each party's contribution.

Eligible Communities

While the focus of this paper is mining communities, the Personal Adjustment Plan mechanism could be extended to single-industry remote communities generally. There are at least two options for identifying communities where P.A.P.'s could be created. Firstly, a list of communities such as found in New Financial Mechanisms For Addressing Mining Community Problems could be employed. Some 74 mining-dependent communities are identified in that document.

Alternatively, the list of communities eligible for the remission order on taxation of northern allowances could be used. There are 551 communities on the list, many of which are not resource-based. Nevertheless, this longer list could be a useful starting point if the Personal Adjustment Plan were to be made available outside the mining industry.

Plan Size and Contribution Levels

As in the case of the Community Development Fund, the size of an individual's Personal Adjustment Plan should depend on the uses to which it would be put, and on the costs of contribution. A uniform ceiling on tax-assisted contributions would also be necessary to limit the tax costs to governments.

In theory, eligible withdrawals from a Plan could be put to virtually any use according to the planholder's discretion. However, the Plan is intended to facilitate adjustment, so the size of an individual's fund should bear a direct relation to the costs of adjustment activities, which would include relocation expenses, retraining costs and job-search costs.

Establishing "reasonable" costs associated with mobility or training is somewhat arbitrary. Regarding mobility, for example, costs will vary according to a range of demographic and geographic factors (e.g., family size, distance of move, etc.). Some guidance might however be taken from the allowable expenses under Canada Employment and Immigration Commission

(CEIC) mobility programs. Again, there is some variation here, but the maximum federal share under normal circumstances is $3000, except in northern regions where the maximum is $4500. Under the Industrial Adjustment Service (IAS) the federal share in mobility assistance can range up to $7500.

Similarly, under CEIC training programs, there are a host of factors that determine the amount to which an individual undertaking retraining would be entitled. These factors include family status, number of dependents, place of residence, and the length of the training period. The basic allowance is $3.50 per hour of training, so, for example, a single individual living alone could receive $70 per week for retraining involving 20 hours per week.

The conclusion that can perhaps be drawn from this limited data is that an "average" Personal Adjustment Plan would have to accumulate several thousand dollars in order to meet adjustment needs. For this paper, it is assumed that the maximum allowable total contribution is $5000, though this amount could range from, say, $2500 to $10,000.

In terms of annual contribution levels, the amounts would have to allow for reasonably speedy accumulation where required without imposing a cost burden on the contributors. For discussion purposes, it is assumed for Option 1 that maximum annual corporate contributions would be $400 per worker. Similarly, individual tax deductible contributions could not exceed $400 annually. (Of course, individuals and corporations would be entitled to contribute more but without the tax benefits.) Under Option 2, it is assumed that individual tax deductible contributions could not exceed $800 per year. In these scenarios, a fund of $5,000, including interest, could be accumulated in approximately 5 years (see details below).

It should be noted that under Option 1 the details on methods of contribution could be flexible and subject to agreement by the parties. Contribution levels could vary from year to year for example. Similarly, the amount of corporate contributions could be calculated on a lump sum basis, or based on formulae such as ¢/hours worked, ¢/unit of output, or based on productivity.

Implementation

The discussion in New Financial Mechanisms for Addressing Mining Community Problems suggests that there are several ways in which a Personal Adjustment Plan could operate. This paper considers one mechanism which would benefit from the ability to utilize existing institutional arrangements. Except where noted, the discussion applies to both Options.

Once a decision is taken to establish a P.A.P., a financial institution would be chosen in which the Plan account for each worker would be held. The institution would register the Plan with Revenue Canada, Taxation. This step ensures that the Plan would meet the conditions necessary for special tax treatment.

Having registered the plan, the financial institution would receive contributions from employees (and from employers on behalf of their own employees under Option 1). The institution would issue receipts and periodic statements reporting on fund status. In fact, the institution's role would be similar to its role in RRSP management.

An issue with implications for administration is determining who in a community should be eligible for tax-free plan withdrawals once a layoff has taken place. The issue is that some laid-off individuals will find work more quickly than others and for them, the need for tax-assisted adjustment benefits is reduced. Consequently, a prerequisite for tax-free withdrawal of funds should probably be that the individual be unemployed. It therefore appears that two assessments would be required to determine qualified tax-free plan withdrawals. First, an assessment of which layoffs would qualify (based on the nature of the layoff), and a further determination of which individuals are unemployed and require tax free assistance from P.A.P.

The assessment of which workers in which communities would be eligible for tax-free withdrawals should be done by an independent agency. This would probably not be a large task since in most years relatively few communities experience adjustment difficulties of a severity warranting tax-free withdrawals from Personal Adjustment Plans.

A federal government agency would appear most well-placed to make the required decisions in an equitable manner across all participating provinces and communities. This agency would assess community adjustment situations according to pre-determined criteria established in cooperation with the other levels of government. Two existing agencies with experience in assessing community adjustment problems are the Canada Employment & Immigration Commission (CEIC) and the Labour Adjustment Review Board (LARB). The LARB is charged, in part, with assessing the eligibility of layoffs in designated communities for purposes of the Labour Adjustment Benefits Act.

The agency chosen for this assessment would issue a certificate stating that the qualified individual can withdraw funds from the Personal Adjustment Plan tax free. Under Option 1, the individual would then be required to present the certificate to the financial institution in order to access the corporate contributions in his account. The certificate would also be submitted with the individual's tax return for the year in which funds were withdrawn.

This paper has not attempted to touch upon all the technical details arising from the P.A.P. idea. Examples of the kinds of details not discussed here are whether part-time workers could contribute, whether contributions would be compulsory for all union members if their union agrees to participate, and provisions for the termination of Plans. These matters would require attention before administrative feasibility could be fully assessed.

It is clear that it is not a trivial matter to develop program terms and conditions that would be specific enough to permit Revenue Canada to administer the Plan, while remaining flexible enough to meet the needs of individuals and employers. Some members of the working group consider that a disadvantage of the P.A.P. idea is the potentially complex administrative arrangements that might be required.

Legislative/Regulatory Requirements

Implementation of the Personal Adjustment Plan proposal would require federal and provincial legislative amendments if it were to receive favourable tax treatment. In addition, the Unemployment Insurance Regulations would require revision if it were decided to exclude some or all of Personal Adjustment Plan withdrawals from income for the purpose of calculating UI benefits.

Other regulations could also be necessary to implement this proposal. Revenue Canada might wish to issue regulations governing the Plans in the same fashion as that agency issues regulations (Interpretive Bulletins) concerning RRSP's and other tax matters. Finally, regulations, or at least guidelines, would be necessary to determine in which communities Plans could be introduced and to determine the circumstances under which workers in those communities would qualify for tax-free withdrawals of funds.

IV. COST CONSIDERATIONS

Option 1 - Costs

The effectiveness of the Personal Adjustment Plan concept depends on sufficient accumulation of funds to ensure adequate financing of adjustment assistance when needs arise. In this analysis, 100% deductibility of individual and corporate contributions at the federal and provincial levels is assumed. A range of possible parameters for the program, summarized in Table 1, should balance a reasonable rate of accumulation against the tax costs to provincial and federal governments. For the detailed cost examination in this section, the mid-range parameters from Table 1 are utilized. It should be emphasized that the maximum contribution amount of $5,000 is an order of magnitude for costing purposes, and may not be adequate in individual cases.

Table 1
Personal Adjustment Plan - Option 1
Key Elements

	Low	Medium	High
Maximum Allowable Total Contributions	$2,500	$5,000	$10,000
Maximum Tax-Deductible Individual Contribution	$200/year	$400/year	$800/year/
Maximum Tax-Deductible Corporate Contribution	$200/year/ worker	$400/year/ worker	$800/year worker
Accumulation of Maximum Contributions Over 5 Years	$2,000	$4,000	$8,000
Accumulated Interest (at 10% annually)	$495	$885	$1,769
Total Available Funds After 5 Years	$2,495	$4,885	$9,769

For the worker who will ultimately be affected by a closure or layoff, the benefits clearly outweigh the costs. Annual contributions of $400 (the mid-range scenario) would represent approximately 1.4% of the average salary (exclusive of benefits) of a production employee in the mining sector[3]. However, net contributions after claiming the federal and

[3] Based on 1983 estimates in the Annual Census of Mines.

provincial tax deductions (using Manitoba rates as an example) could be $246.00 annually, assuming a marginal tax rate of 25%. Over 5 years, total net contributions in real terms would be $1230.00. Table 2 illustrates the estimated costs to individuals of the program for Manitoba, British Columbia, Quebec, and New Brunswick utilizing the mid-range scenario.

In contrast, continuing to assume maximum contributions over 5 years by both the employee and employer, and an interest rate of 10%, the individual's Personal Adjustment Plan would grow to $4885. Therefore, for a worker in a single industry, resource-based community, the $1230 investment certainly appears sound.

The cost implications for employers and governments under Option 1 are more complex. Focussing firstly on employer costs, the initial outlay before tax considerations may range up to $400 per worker for 5 years. For a mining company of, say 250 employees, this represents a pre-tax cost of $100,000 annually. However, these corporate contributions are assumed to be 100% tax deductible at the federal and provincial levels. The tax provisions could make a large difference to the overall corporate cost of participating in Personal Adjustment Plans, certainly in the case of those companies which are sufficiently profitable to pay tax.

Table 2
Personal Adjustment Plan - Option 1
Estimated Financial Impact
Individuals

	(Dollars)			
	B.C.	Man.	Que.	N.B.
1. Annual Contribution Before Tax	400	400	400	400
2. Federal Tax Refundable (25% Marginal Tax Rate)	100	100	100	100
3. Provincial Tax Refundable[1]	44.00	54.00	91.50	58.00
4. Total Tax Refundable	144.00	154.00	191.50	158.00
5. Net Contribution After Tax	256.00	246.00	208.50	242.00
6. Total Net Contributions (over 5 years)	1280.00	1230.00	1042.50	1210.00

[1] Based on 1985 provincial rates: B.C. is 44% of federal tax, Manitoba is 54% of federal tax, New Brunswick is 58% of federal tax, and for Quebec a marginal tax rate of 27%, in addition to an abatement of 16.5% of federal tax, is utilized.

To estimate the after tax costs to mining companies of this proposal, a tax model developed by Energy, Mines and Resources Canada, is utilized. This model, called SMARTAX, estimates the tax and cash flow implications arising from a wide range of costs for a "typical" Canadian mine. This fictitious mine, the Underground Gold-Copper Mining (UGCM) Company, has ore reserves of 10.5 million tons, a daily mill rate of 1,500 tons, and annual production of 525,000 tons. The price of copper in the model is assumed to be C$0.88 per pound, gold is priced at C$480 per oz., and the mine is assumed to employ 250 production workers. While not necessarily applicable to any actual Canadian mining operation, it can give a sense of the cost magnitudes involved.

Four versions of the model are available, based on the tax provisions in each of New Brunswick, Quebec, Manitoba and British Columbia. The model could therefore only be run for these jurisdictions. It is assumed that the annual cost of corporate Personal Adjustment Plan contributions is $100,000, deductible at 100 per cent.[4] This amount is equivalent to $400 per worker for the entire plant workforce of 250 (the mid-range scenario from Table 1).

The results of the simulations are found in Table 3.

Line 1 of Table 3 is simply the sum of annual $100,000 contributions over a five-year period (all estimates are made in constant dollars). Line 2 reports the difference between the base case, and the Personal Adjustment Plan model in terms of estimated federal income tax paid. The UCGM Company pays $135,000 less on federal income tax as a result of the Personal Adjustment Plan.

The impact on provincial taxes is found in line 3. Provincial tax savings are generated through reductions in both income tax and mining tax in the model (though in practice this need not be the case). The sum of these two is reported in line 3. Line 4, total taxes saved, is simply the sum of lines 2 and 3. The net total program cost for UCGM company (line 5) is then calculated as the difference between total contributions (line 1) and total taxes saved (line 4). To look at Manitoba, for example, the corporate cost of participating in Personal Adjustment Plans for 250 employees is slightly over $250,000. Per employee, the cost is approximately $1000, or $200 per year for each of the five years over which contributions would be made.

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[4] An idea that has been suggested would be offer enhanced deductions to employers as an incentive to participate. For example, P.A.P. contributions could be treated like exploration expenses and receive a 133 1/3% tax deduction. In this event, the incentive to employers to participate in the program would be greater than if contributions were treated only as a normal operating expense. Estimates from the SMARTAX model indicate that such a tax structure would imply a relatively greater program cost to governments (on the order of 40% greater for the federal government) and less to employers (eg. some 72% less for employers in B.C.), than without the enhanced deductions. In view of the cost implications, this feature does not appear feasible, though other incentives, such as a grant to employers to help defray start-up administrative costs, are possible.

The model also estimates the impact of the present proposal on the company's rate of return on equity. From lines 7 and 8 it can be seen that the impact is minimal in all three provinces examined. In Manitoba and Quebec, for example, the rate of return falls by 0.05 percentage points, and in B.C. it falls by 0.04 percentage points.

Table 3
Personal Adjustment Plan - Option 1
Estimated Budgetary Impacts
UCGM Company

	B.C.	Man.	Que.	N.B.
1. Impact on Gross Cash Flow Before Tax	$500,000	$500,000	$500,000	$500,000
2. Impact on Federal Taxes Paid	-$135,000	-$135,000	-$135,000	-$135,000
3. Impact on Provincial Taxes Paid	-$134,688	-$114,752	-$86,629	-$241,700
4. Total Tax Saved	$269,688	$249,752	$221,629	$376,700
5. Net Total Program Cost	$230,312	$250,248	$278,371	$123,300
6. Annualized Per Worker Program Cost	$184.35	$200.20	$220.70	$98.64
7. Rate of Return Without Program	.1247	.1291	.1384	.1310
8. Rate of Return With Program	.1243	.1286	.1379	.1305

Table 4
Personal Adjustment Plan - Option 1
Estimated Budgetary Impacts
Governments

Financial Impact	Federal	B.C.	Man.	Que.	N.B.
1. Individual Tax Foregone (Annual per Employee)	$100.00	$44.00	$54.00	$91.50	$58.00
2. Corporate Tax Foregone (Annual per Employee Basis)	$108.00	$107.75	$91.80	$69.30	$193.36
3. Total Tax Foregone (Annual per Worker)	$208.00	$151.75	$145.80	$160.80	$251.36
4. Assumed Program Population	54,000	6,000	7,000	13,000	0
5. Maximum Annual Tax Foregone	$11.23 million	$0.91 million	$1.02 million	$2.09 million	$0.0 million

A factor not reflected in Table 3 is the time frame over which program expenditures and tax savings would take place. In fact, the model is structured so that tax savings may be deferred as a means to minimize total tax paid. In the model, expenses of $100,000 are incurred in each of 5 consecutive years. However, the tax savings are not realized until at least 3 years after the program ends.

The costs to the federal and provincial governments under Option 1, in terms of tax revenue foregone, are summarized in Table 4. Line 1 is taken from lines 2 and 3 of Table 2. The amount reported in line 1 is the annual per employee tax foregone based on federal and provincial marginal tax rates. The variation in tax foregone reflects the different tax rates in each of the jurisdictions.

The other source of foregone tax would result from the deductibility of corporate contributions to Personal Adjustment Plans (line 2). The corporate tax foregone is calculated from Table 3, lines 2 and 3. For example, the federal corporate tax foregone is $135,000, but on an annual, per employee basis, this amount would be equivalent to (135000/250)/5 = $108.00.

The total tax foregone per Plan holder in each jurisdiction (line 3) is found by summing lines 1 and 2. As an example, under the current assumptions the federal cost would be $208.00 per participant annually, or approximately $1,000.00 after 5 years (i.e., at which time the contribution limit would be reached).

To estimate total costs to governments of the Personal Adjustment Plan concept, an estimate of the total number of individuals who would purchase plans is required. This is very difficult to estimate. For purposes of illustration only, it is assumed that the program would be restricted to those mining communities which currently would qualify for the federal northern benefits tax remission program[5]. Additionally, it is assumed that everyone in the labour force in these communities would purchase a Plan. Across Canada, this would represent about 54,000 persons in 39 communities. Whether these parameters are appropriate or not would depend on whether the program was restricted to mining communities or extended to other single-industry, resource-based towns. It is clear that if P.A.P. were so extended, program costs would be greater. Nevertheless, defining the program population in this manner gives a practical sense of the magnitudes involved.

Line 5 of Table 4 is the "bottom line" in terms of the tax impact of the present proposal. It is derived by multiplying line 3 (per worker cost) by line 4 (program population). The annual federal tax revenue foregone would be near $11.0 million, in Quebec the province would forego about $2.1 million, the amount would be near $0.9 million in B.C., and $1.0 million in Manitoba. Expenditures in New Brunswick would be nil in this illustration because existing mining communities in that province do not qualify for the northern and isolated communities allowances remission. In general, for each province, the cost of the Personal Adjustment Plan would depend on the importance of single-industry mining communities to the overall provincial economy.

Again, the time frame is an important factor in considering the tax impact on governments. The tax foregone on individual Plan contributions would occur in the year during which the contributions were made. However, because the corporate tax benefits can be deferred until several years after the program is introduced, the impact of the corporate tax deductions on the federal and provincial treasuries would not necessarily be felt during the initial years of the program. In other words, the overall impact on the treasury could be disbursed over considerably more than the five years during which an individual could accumulate funds in a Plan.

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[5] As outlined in the February 1986 Budget, residents of designated northern and isolated communities will be eligible for special housing and travel tax deductions effective January 1987. This program will replace existing tax exemptions. In general, for communities to qualify for the deductions, the population must be less than 10,000. Also, climate, access and distance from major centres are factors.

It is clear that for the companies and governments which participate in Option 1, there would be associated administrative costs. For this paper, it is assumed that these administrative costs are minor in comparison to the tax and contribution costs. The relatively simple program structure, which relies to a great extent on existing institutional arrangements, would seem to support this claim.

By way of summary, it is interesting to consider the cost share for each of the two levels of government, the company, and the individual of a single annual contribution of $800 under Option 1 of the Personal Adjustment Plan. Assume the UCGM Company is located in British Columbia. From Table 2, the cost to the individual is $256.00 (32% of the total). From Table 3, the corporate contribution is $184.25 (23%). From Table 4, the federal contribution is $208.00 (26%), and the provincial contribution is $151.75 (18%). The concept of sharing the adjustment costs among all concerned becomes clear in this example.

Option 2 - Costs

In the Option 2 scenario, P.A.P. contributions are made solely by individuals, and are assumed to be 100% tax deductible at the federal and provincial levels.[6] As discussed above, a P.A.P. would have to accumulate several thousand dollars to be an effective source of funds for adjustment assistance. In that light, Table 5 summarizes a range of possible financing scenarios. For the purpose of analysis the medium-term scenario is chosen; that is, a maximum annual contribution limit of $800 with a maximum allowable fund for tax purposes of $5,000, and contributions spread over a period of 5 years.

The costs of the P.A.P. Option 2 would obviously be borne by participants and the federal and provincial governments. For those individuals who contributed the maximum allowable, the $800 contribution would represent approximately 2.8% of the average salary (exclusive of benefits) of a production employee in the mining sector. However, as Table 6 illustrates, the cost to participants of contributions after tax would be sharply less. The net contribution after tax (line 5 of the Table) is calculated as the difference between the total annual contribution of $800 and the federal and provincial tax refunds (lines 2 and 3) owing as a result of participating in the program. For example, because tax rates are lowest in the

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6 A mechanism which would be favoured by the labour movement is a tax credit rather than tax deductions. The advantage of such a scheme is that it is more equitable since lower income individuals would get a higher relative benefit. However, assuming a marginal tax rate of 25%, an $800 tax credit would cost government four times more than an $800 deduction. For this reason, to keep the costs to government under a tax credit scheme roughly equal, the credit would have to be fixed as a percentage of the annual contribution, where the percentage is equal to the mean marginal tax rate of the program population. That is if the mean marginal tax rate were 25%, then the credit for all participants would be 25% of their annual contribution. Those with a marginal tax rate higher than 25% would lose relative to the deduction system while those with a marginal tax rate of less than 25% would gain.

Table 5
Personal Adjustment Plan - Option 2
Key Elements

	Low	Medium	High
Maximum Allowable Plan Size	$2500	$5000	$7500
Maximum Tax-Deductible Annual Contribution	$400	$800	$1200
Accumulation After 5 Years	$2000	$4000	$6000
Interest After 5 Years (10%)	$495	$885	$1320
Total P.A.P. After 5 Years	$2495	$4885	$7320

Northwest Territories, the net costs of contribution would be highest for residents there: $514 annually, or $2570 if contributions were made over 5 years. Conversely, the net costs for Quebec residents would be $417 annually or $2085 over 5 years.

The costs to governments of the Personal Adjustment Plan Option 2, in terms of tax revenue foregone, are detailed in Table 7. Line 1, the maximum annual tax foregone per employee is taken directly from lines 2 and 3 of Table 6. Implicit in line 1 is that participants contribute $800 annually to their P.A.P.'s. Line 2 is the assumed total program population. As was done for Option 1 (Table 4), it is assumed that the program population is defined by the labour force of communities that qualify for the northern benefits tax remision. Of course, this is arbitrary, but does give a sense of the magnitudes involved. Finally, line 3, the maximum tax revenue foregone by each government annually, is calculated by multiplying lines 1 and 2.

Table 6
Personal Adjustment Plan - Option 2
Estimated Financial Impact
Individuals, by Province

	Yukon	NWT	B.C.	ALTA	SASK	MAN	ONT	QUE	N.B.	N.S.	NFLD
						DOLLARS					
1. Annual Contribution Before Tax	800	800	800	800	800	800	800	800	800	800	800
2. Federal Tax Refundable - (25% marginal tax rate)	200	200	200	200	200	200	200	200	200	200	200
3. Provincial Tax Refundable[1]	90	86	88	87	101	108	96	183	116	113	120
4. Total Tax Refundable	290	286	288	287	301	308	296	383	316	313	320
5. Net Contribution After Tax	510	514	512	513	499	492	504	417	484	487	480
6. Total Net Contributions (after 5 years)	2550	2570	2560	2565	2495	2460	2520	2085	2420	2435	2400

[1] Based on 1985 Provincial Tax Rates

Table 7
Personal Adjustment Plan - Option 2
Estimated Budgetary Impacts
Governments

	Federal	Yukon	NWT	B.C.	ALTA	SASK	MAN	ONT	QUE	N.B.	N.S.	NFLD
1. Maximum Tax Foregone (Annual dollars per person)	200	90	86	88	87	101	108	96	183	116	113	120
2. Assumed program population	5400	1000	7000	6000	2000	1000	7000	8000	13000	0	0	9000
3. Maximum Annual Tax Foregone (Millions of Dollars)	10.8	0.09	0.60	0.53	0.17	0.10	0.76	0.77	2.38	0	0	1.08

Table 7 shows that the annual federal cost of Option 2 would be $10.8 million. Provincial costs would be much lower due to lower tax rates and smaller mining community populations. Program costs would be some $530,000 annually is B.C., $2.38 million in Quebec, and $1.08 million in Newfoundland. If contributions were made over a period of 5 years, total maximum program costs could be derived by multiplying the estimates in line 3 of Table 7 by a factor of 5.

It is useful to consider the cost shares of each of the three financial participants in Option 2. To again use British Columbia for this illustration, the individuals' share of an $800 contribution (from Table 6) would be $512 (64% of the total), the federal share would be $200 (25%) and the provincial share $88 (11%). In contrast to Option 1, while the federal share remains approximately the same, the absence of corporate participation implies that the contribution cost to individuals is much higher and the cost to provinces is somewhat lower. Indeed, the cost to individuals doubles and the provincial share falls from 18% to 11%. With some variation, a similar pattern would be found in the other provinces and territories.

Cost-effectiveness

A result of the Personal Adjustment Plan costing exercise which stands out is the significant amounts of tax revenue that could be foregone by the provinces and the federal government were P.A.P. contributions made tax deductible. The federal cost is highest since federal funds would, in essence, contribute to every Plan started across Canada. A key question then is whether the costs could be supported in terms of savings on other programs, or in terms of cost-effectiveness in accomplishing adjustment objectives.

Focussing on federal tax revenue foregone, since it is the largest in absolute terms, the Personal Adjustment Plan would deprive the federal treasury of up to $11.0 million annually. It is interesting to compare this cost with the costs of actual tax measures now in place. The costs to the federal treasury of the non-taxation of northern benefits is estimated at $25 million for 1983. For that year, the cost of deductibility of medical expenses was $65 million, tax advantages on RRSP's and reported pension plans cost the treasury $4.9 billion, and the cost of the RHOSP program was estimated at $125 million. This listing, while highly selective, puts the costs of the Personal Adjustment Plan proposal in some context. Specifically, the P.A.P. would represent a small part of the array of federal programs, both for labour market adjustment and social development generally.

A relevant consideration in the costing context is the possible relationship between Personal Adjustment Plans and RRSP's. Specifically, since the amount an individual can save in a given year is more or less fixed, the contributions to P.A.P.'s may result in a decrease in contributions to RRSP's. In this event, the cost to the federal treasury is not increased, but simply shifted from RRSP's to P.A.P.'s. This possibility would require further careful examination.

Another factor is that for those many instances where Plans are never used because adjustment situations do not arise, the contributions become taxable. Consequently, because some lost tax revenues would ultimately be recovered, the $11.0 million annual cost estimate would be significantly high.

The foregoing discussion is not intended to downplay the emphasis which must be placed on provincial and federal budgetary issues when assessing the Personal Adjustment Plan concept. Governments are striving to decrease, not increase, budget deficits. However, of equal importance is the effectiveness of current adjustment assistance expenditures in relation to potential P.A.P. costs. The proposal would in fact be most cost-effective if viewed as replacing rather than adding to existing labour market programs.

In considering the potential cost savings on existing programs, it is useful to review recent labour adjustment expenditures in the mining sector. The New Financial Mechanisms study estimated that during the recession period 1982-84, some $287 million in Unemployment Insurance (UI) was paid to unemployed mine workers. The study also calculates that $258 million in federal and provincial taxes were foregone over the period as a result of mining industry layoffs. To the extent that P.A.P.'s can improve the financial preparedness of participants to search for new work after a layoff, thereby shortening the spell of unemployment, both UI and tax savings would accrue to the government.

It is also useful to look at selected labour market programs, which could be in less demand in single-industry towns were the Personal Adjustment Plan alternative in place. Labour adjustment expenditures to the end of 1985 under ILAP and MILAP (which, prior to 1986, were the federal government's primary programs for single-industry communities) were

approximately $26 million in the mining sector alone, and $69 million for the entire program. Additionally, some $12.4 million was disbursed under the Canada Mobility Program during fiscal year 1984/85 for relocation and job search travel, two primary possible uses of P.A.P. funds. The National Training Program, with expenditures near $1.1 billion in 1984/85, also funded activities for which P.A.P. savings could be used, including institutional training whereby individuals can acquire skills to better enable them to secure employment.

From a related perspective, the cost to governments of adjustment assistance programs per laid-off worker could fall as a result of the P.A.P. proposal. To illustrate, for each laid-off worker who would make use of P.A.P. savings to the maximum allowed (i.e., total contributions of $5,000), the cost to the federal government would be about $1,000. Under current mobility and retraining programs, several thousand dollars per individual can be spent. To the extent that P.A.P.'s accomplish similar objectives, there is a potential for improved cost-effectiveness.

This very brief review of labour market program expenditures suggests both the magnitude of the adjustment problem and the potential for cost reductions were a more effective adjustment assistance program found. By virtue of the cost-sharing approach of the Personal Adjustment Plan, it has the potential, on that basis alone, to be a more cost effective use of public funds, from the government perspective, then existing adjustment programs which are fully funded by government. In any event, the Personel Adjustment Plan concept would have to be evaluated in the context of Canada's overall labour adjustment policy.

It is noteworthy that with a Personal Adjustment Plan in place there would be reduced pressure on the new Community Futures Program as a source of funds for adjustment assistance programs such as mobility allowances or retraining. To the extent that individuals can fund these activities with P.A.P. savings, there should be less reliance on Community Futures to finance these activities directly.

Finally, companies in the mining sector have also committed substantial resources to assist workers affected by layoffs. In the typical case, displaced workers might receive severance pay equivalent to 1-2 week's salary per year of service, in addition to relocation assistance and early retirement incentives. Early retirement packages, in particular, have become a common corporate adjustment mechanism since the 1982-83 recession, and can be costly. These packages might include entitlement to full pension as early as age 55, lump sum payments, and bridging of pension benefits until the employee qualifies for Canada Pension Plan benefits at age 65. Since adjustment packages will vary among companies, each employer would need to compare current allocations for adjustment activities to the costs they would incur if Option 1 of the Personal Adjustment Plan program were introduced.

V. CONCLUSIONS

The Personal Adjustment Plan proposal is a cost-shared savings vehicle designed to provide for worker adjustment assistance. It is intended for use in the event of severe dislocation resulting from layoffs in single-industry communities. Though adjustment programs have been an important element of federal and provincial employment strategies for some time, the P.A.P. approach is new and seeks to maximize the benefits, in program effectiveness terms, of sharing the responsibility for adjustment among all concerned parties. The approach is also unique in that it encourages financial planning for the eventuality of mine closures or major layoffs.

A number of concerns with the Personal Adjustment Plan have arisen. While recognizing the importance of adjustment assistance and supportive of the broad objectives of P.A.P., the labour movement would have serious reservations because, in their view, the financing mechanism, as proposed, would put an excessive onus on workers. Also, some working group members believe that program administration would be too complex. Finally, the federal Department of Finance may find it difficult to support additional tax expenditures is the current budgetary environment.

Two broad design Options for the Personal Adjustment Plan have been examined in this paper. While the key features of each have been explored, there remain a number of technical details that would ultimately require attention. Option 1 provides for joint employee-employer contributions to an employee's P.A.P. Both employee and employer contributions would be tax-deductible at the federal and provincial levels. In the scenario examined in the paper, employees could make tax deductible contributions of up to $400 annually for five years and similarly, employers could make annual $400 contributions on behalf of each employee. After five years, near $5000 would be accumulated in the Personal Adjustment Plan of each participant. If participants were laid-off as a consequence of a mine closure or major layoff, they could then make tax-free withdrawals from their Plans for use in making the transition to new employment.

Option 2 provides for employee contributions only, in a manner similar to R.R.S.P.'s. Individuals could make tax-deductible contributions of up to $800 annually for five years. As under Option 1, participants in eligible layoff situations could make tax-free withdrawals from the P.A.P.'s. Individuals who choose to terminate their P.A.P. could either rollover the funds into on R.R.S.P. or pay tax on the accumulated amount.

As described in this paper, the program could be made available in all Canadian mining-dependent communities. Within those towns, all employed residents would be free to establish Personal Adjustment Plans, so that the proposal, unlike previous adjustment efforts, is not restricted to mine workers. For example, any community resident whose job is lost, either directly or indirectly as a result of the mine closure or major layoff, could benefit.

The costs of the Personal Adjustment Plan would depend on which of the two options is chosen. Option 1 is much less onerous for employees than Option 2 as a result of the employer participation. Even under Option 2 however, an individual could make five annual net contributions of approximately $500, depending on province of residency, and have access to a P.A.P. of $5000 after the five years.

The costs to governments would take the form of tax revenue foregone. The critical factor in estimating this cost is the scope of the program (i.e. how widely the program would be made available). The cost to the federal government would be approximately a maximum of $200 per participant annually under either option. Provincial costs under Option 1 would range from $145 to $250 per participant annually, while the range would be from $85 to $185 under Option 2. While these estimates represent "worst-case" magnitudes in the sense that they do not reflect savings that could be incurred on other adjustment programs, this report has dealt only with mining communities, and costs would increase if other single-industry towns were included.

The Personal Adjustment Plan would add a new dimension to Canada's approach to labour adjustment in single-industry communities. It is highly participative in that it could involve workers, employers and governments in one program. It also raises interesting tax and adjustment policy issues at a time when reform of the Canadian tax system is of current interest. However, the proposal contemplates tax expenditures at a time when deficit reduction is a government priority, and raises difficult program administration questions. Similarly an onus is placed on individual workers which many, including organized labour, believe to be inappropriate. The working group holds the view that these hurdles and other, need to be resolved before the proposal is pursued further.

Despite the difficulties, the issues raised by the Personal Adjustment Plan idea remain important to residents and workers in single-industry communities. This report can make a useful contribution if it encourages further informed debate on Canada's labour adjustment policies.

ANNEX 1

WORKING GROUP ON FINANCING MINING COMMUNITY ADJUSTMENT*

LIST OF PARTICIPANTS

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* The analysis and conclusions in this paper do not necessarily reflect the official views of organizations represented on the working group.